



Start. Grow. Innovate.

Annual Report 2009-10

Innovation PEI

Business Development

Prospecting & Innovation

Lending Services

Strategic Initiatives & Properties

Atlantic Technology Centre

Food Technology Centre



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Message from Chief Executive Officer

Honourable Allan Campbell
Minister of Innovation and Advanced Learning
PO Box 2000
Charlottetown, PE
C1A 7N8

Dear Minister Campbell,

I respectfully submit the Innovation PEI Annual Report for the fiscal year ending March 31, 2010.

As the crown agency responsible for economic development in Prince Edward Island, Innovation PEI is committed to expanding opportunities for employment and economic growth. Over the past year, Innovation PEI has taken a sector approach, as outlined by the Island Prosperity Strategy (IPS), to help Prince Edward Island build a foundation for prosperity.

Innovation PEI continued to make strides in creating employment opportunities, especially in the four growth sectors — aerospace, bioscience, renewable energy & advanced manufacturing, and information and communications technology.

Our province is fortunate to have a highly skilled labour force, an innovative driven environment, and infrastructure that support Island companies to compete in the global economy.

In closing, I wish to thank the employees of Innovation PEI for their hard work and dedication in helping clients pursue their goals and for continuing to create employment opportunities for Islanders.

Sincerely,

Neil Stewart
Chief Executive Officer
Innovation PEI

Board of Directors

Innovation PEI

- Brian Thompson, Chairman
- Brian McMillan, Director
- Wade MacLauchlan, Director
- Carl Brothers, Director
- Linda Duncan, Director
- Kevin Murphy, Director
- Kira Saloniis, Director
- Duncan Shaw, Director
- Michael Mayne, Deputy Minister, DIAL
- Neil Stewart, Secretary/Treasurer to the Board, CEO, Innovation PEI

Atlantic Technology Centre

- Michael Mayne, Chairman, Deputy Minister, DIAL
- Shannon Burke, Treasurer
- Neil Stewart, Secretary

Business Development

The Business Development Division is responsible for the coordination and delivery of information and assistance to new and existing local businesses in Prince Edward Island. The group provides counseling, financial assistance, business guidance, entrepreneur education and management development to assist businesses with start up, expansion and diversification of business that supports the long term viability of Island companies.

Supporting small business continues to be a high priority within Innovation PEI. Small and mid-sized enterprises (SMEs) make up the bulk of business establishments on Prince Edward Island.

Innovation PEI supports small business and encourages entrepreneurship through cost shared financial assistance for capital acquisitions, market development, technology, training and innovation.

The division delivers a series of incentive programs targeted at a variety of industry sectors. Over 550 projects were directly funded under a variety of small business support programs at Innovation PEI during the 2009-2010 fiscal year resulting in an investment of \$6.6 million and leveraging approximately another \$20 million in investment from other sources.

The Business Development Division also includes the Trade and Marketing section whose mandate is to increase revenues generated from export sales and to assist Prince Edward Island companies in becoming export ready.

This section provides training, support for market-entry activities and market-specific information. It also represents the Province on management committees

for regional agreements such as the International Business Development Agreement and the Atlantic Canada Food Export Partnership.

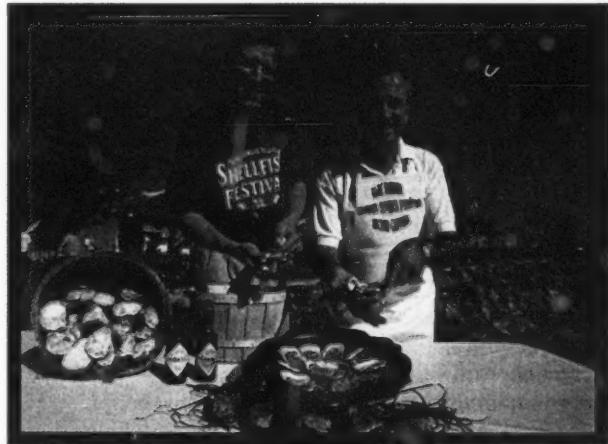


Business Development

Highlights

- Innovation PEI staff act as the primary contact for Islanders seeking business information, financing mentoring or counseling
- 552 projects in last fiscal year resulting in investment of \$6.6million into Island companies
- 65 projects approved under progressive tax programs resulting in investment in excess of \$10 million.
- 502 small business owners/managers participated in 43 training workshops in 14 communities across PEI under the Profit Learn Program. Over 4900 individuals have accessed this training since inception.
- As part of our Out Reach Program, staff attended approximately 245 events coordinated by various business groups such as the Chamber of Commerce, Job Fairs, Council Meetings, Rotary Club, and Junior Achievement, to name a few
- Staff hosted approximately 3,000 face to face meetings during the 2009-2010 fiscal year. Staff also estimates an additional 4,000 plus phone calls and countless e-mail correspondence with Islanders seeking information and guidance regarding small business development.

- During the year a Business Mentoring program was introduced with the objective to help new entrepreneurs grow their business by developing a network of experienced business leaders willing to share their knowledge and experience. Nine matches were made in the inaugural year.
- The LaunchPad Business Incubation Program was expanded to include student entrepreneurs with two new business incubators at UPEI and Holland College



Business Development

Trade & Marketing

The mandate of the Trade group, in support of the Island Prosperity Strategy, is to increase revenues generated from export sales and to assist Prince Edward Island companies in becoming export ready. Staff work in partnership with the other divisions of Innovation PEI, federal representation through ACOA, the respective provincial and federal departments and industry.

Staff lead and/or participate in a number of trade missions and trade shows each year. These missions and shows provide a cost-effective method for companies to gain entry into a market, gather important market intelligence and learn what barriers might exist. They also provide participants with an opportunity to meet face-to-face with prospective partners in the target geographic areas.

This section of Business Development also provides training, support for market- entry activities and market-specific information. Staff provides counseling support to Prince Edward Island small businesses in the areas of export market development. The projects range from individualized training on export capabilities to competitive intelligence to market entry to new market opportunities research.

Highlights

- Led successful trade missions to Boston, Atlanta, Florida, and the Caribbean region,
- Led large delegations to the Conexmar Food Show in Spain, Chinese Seafood Show, Boston

- Seafood Show, Japan Foodex, the European Seafood Exposition and the National Restaurant Show in Chicago,
- Worked in cooperation with industry and other government agencies to promote PEI lobster to markets in the US, Europe and Asia,
- Conducted six market awareness sessions where over 150 companies were exposed to market opportunities in Atlanta, Florida, Caribbean, Japan, Korea and India,
- Entertained 10 plus incoming buyers for seafood products from US, Europe and Asia,
- Sponsored 10 conferences or events that enabled PEI exporters to make new contacts, introduce product offerings and gain a better understanding into future business opportunities,
- Offered export education to PEI small businesses during Small Business Week and throughout the year,
- Assisted five individuals to participate in International Trade Training program (FITT),
- Assisted exporters to conduct necessary research into new market opportunities,
- Provided support to Pan Atlantic initiatives such as the incoming Bio program, branding Aerospace, that benefitted Island businesses,
- Further developed international support network with DFAIT, National Embassies, in market consultants, and other key contacts.

Lending Services

The Lending Services Division provides financing, strategic investments and loan guarantees in support of Prince Edward Island businesses to create, maintain or expand business opportunities that will result in wealth and job creation for the Province.

Our lending and investment activities are focused on manufacturers, processors and service providers in the Corporation's priority development sectors, with emphasis on businesses involved in exporting to domestic and international markets, import replacement and value-added processing.

As a developmental lender, the Division seeks innovative and generally higher risk projects rather than conventional lenders. By utilizing a non-formula approach to lending, the Division strives to maximize development opportunities for the province while balancing financial risk of the project with the projected economic return.

The Division prides itself in providing clients with innovative financial solutions that generally involve multiple stakeholders, including conventional lenders and other business development agencies. This is achieved by using a variety of financial products, such as demand loans, revolving lines of credit, term loans, equity investments and loan guarantees to meet the client's specific financing needs.

As a complementary lender to that of conventional lenders, the Division plays an unique and important role in the lending marketplace. By developing partnerships with conventional lenders and other business development agencies, the Division assists its clients to leverage additional financing and other resources required to enable the projects to proceed.

Highlights

- As part of its non-conventional approach to commercial lending, the Division can act as a financial intermediary, utilizing staff expertise in banking and accounting to assist clients to assemble financial packages for their projects with other lenders and government agencies.
- Provides financing, strategic investments and loan guarantees in support of Prince Edward Island businesses. In fiscal 2010, the portfolio totaled \$40 million outstanding to a total of 88 client accounts.
- Manages the loan portfolio of Island Investment Development Inc. (IIDI), a separate Crown Corporation. IIDI invests federal immigrant funds through low interest term financing to Prince Edward Island businesses where there will be significant economic benefit to the Province.
- During the fiscal year, IIDI's loan portfolio exhibited growth with \$34.5 million in new loans. Overall, the total number of loan accounts at fiscal increased from 15% to 79% while the portfolio value (loans outstanding) grew by 38% to \$123.2 million in comparison to the prior fiscal year.
- Manages the Entrepreneur Loan Program, which serves the needs of the micro loan market by guaranteeing term loans to finance small business start-ups and expansion opportunities up to \$50,000. This program has 32 loan guarantee accounts with \$660,000 under management.
- Manages the Winter Production Financing Program, which provides loans to new and expanding craft and giftware manufacturers to increase product inventory during the winter months to meet peak sales periods. The portfolio has 24 client accounts totaling \$177,000.

Prospecting & Innovation

The Prospecting & Innovation Programs Division is responsible for attracting outside investment to Prince Edward Island and managing programs focused on strengthening the strategic sectors of bioscience, information technology, aerospace, and renewable energy.

The prospecting function of the division performs activities to identify, evaluate and secure investment leads that result in business formations and expansions - strengthening our economy and increasing employment opportunities for Islanders. The program management function of the Division participates in the creation of policies and programs, and is responsible for the ongoing administration of policies, programs, and projects. The Division works closely with the Atlantic Canada Opportunities Agency and regional business development corporations, and other organizations whose primary function may not be economic development, including schools, Holland College, University of Prince Edward Island, and other education or research institutions.

Division activities include attendance at various industry events, marketing, networking, performance measures and impact analysis, communications, strategic planning, and labour and skills development. Priorities evolve based on skills supply/shortage, demographic trends, economic climate, growth potential of industries, enhancement to existing industries, and other factors.

Invest PEI is a partnership between Innovation PEI, the Government of Canada and various economic development organizations. Invest PEI uses a team approach to increase awareness of Prince Edward

Island as an investment location with consistent messaging and branding. This cooperative approach enables provincial, federal and municipal organizations to effectively conduct prospecting activities by providing potential investors with a "one-stop shop".

Infrastructure

The BioCommons Research Park, a major strategic initiative of the *Island Prosperity Strategy: A Focus for Change*, will be a centre for bioscience research and development, manufacturing and support services. The key mandate of the BioCommons is to connect our primary sectors to the modern tools of biotechnology to create new products from our primary resources.

The BioCommons will strengthen the growing PEI bioscience sector by accelerating new product development through access to technology platforms, equipment, commercialization services, and increased collaboration. A state-of-the art biotechnology incubator will assist companies to commercialize their products. Development of the BioCommons is advancing with the acquisition of land located on the Upton Farm Property in Charlottetown and ongoing planning and design activities.

Industry is heavily involved in the planning and business plan stages for the BioCommons via a working group comprised primarily of board members from the PEI BioAlliance and industry. Construction tenders are expected to be issued for streets, water and sewer in the first quarter of the 2010-2011 fiscal year.

Prospecting & Innovation

Island Prosperity Strategy Programs

The *Island Prosperity Strategy* (IPS) introduced several new funding programs targeting businesses and researchers working on Prince Edward Island in the strategic sectors of aerospace, bioscience (including primary sectors), information technology, and renewable energy. The *Prospecting & Innovation* division of Innovation PEI is now responsible for the delivery of these programs.

Program applications are evaluated by a peer review committee of representatives from various government departments, crown corporations, private business and academia. The top ranked applications that meet all eligibility criteria are offered funding. The number of approved applications per program, per round, is dependent on the program budget and the value of the application funding requests. During the 2009-2010 fiscal year, committees reviewed 151 applications to the Island Prosperity Strategy programs; fifty-three projects were successful. Innovation PEI committed \$4.6 million to these projects, which have total costs of \$12.3 million.

The *Discovery & Development Fund* provides monetary support to organizations during the discovery and development phases of the project cycle. Eleven of forty-nine applications were offered funding.

The *Graduate and Post-Doctoral Fellowship Program* is designed to support and develop highly skilled researchers in Prince Edward Island. Of the thirty-six applications received, the top four applications in each of the Masters, PhD and Post-Doctoral categories were offered funding.

The *Premier's Medal for Innovation* is awarded to a Prince Edward Island innovator who has demonstrated excellence in his/her field and has made a significant research contribution to the innovative fabric of the Island economy. Five applications were submitted by PEI researchers and institutions under this Innovation Program.



Prospecting & Innovation

Ten applications were received for the *PEI Industry Research Chair Program*, which will encourage stronger partnerships between PEI research institutions and the private sector to support the development of new products and services that show potential for commercialization. UPEI researchers and industry leaders, Dr. Larry Hammell and Dr. Greg Keefe, were named to the five-year appointments in June 2009.

Dr. Larry Hammell is the Director of the Atlantic Veterinary College Centre for Aquatic Health Sciences and a professor of epidemiology at UPEI's Atlantic Veterinary College. As Industry Research Chair, Dr. Hammell will further establish the OIE Collaborating Centre for Aquatic Epidemiology and Evidence-Based Health Management. In addition to improving health management in aquaculture, this work will guide policy decisions at all levels of the industry and help determine international standards for the industry.

Dr. Greg Keefe is a professor of dairy production medicine and Director of the Atlantic Veterinary College's Maritime Quality Milk, a centre that has an integrated research and service capacity that is unparalleled within the Canadian dairy industry. The Research Chair position will focus on commercial opportunities developed out of the current and future Maritime Quality Milk Platform. Further information on these recipients is available at <http://www.islandprosperity.com/researchchairs.php>.

The *Pilot Fund* is a program designed to help Islanders test high-risk, innovation-based ideas that have strong commercialization potential. The second round of the Pilot Fund resulted in thirty-seven applications, of which sixteen were offered funding.

The *Premier's Innovation Speaker Series* supports local leaders who have identified world experts to deliver public lectures, seminar presentations and take part in roundtable or panel discussion on Prince Edward Island. Seven applications were received and five projects were offered funding.

The *Prototype Fund* was implemented as a Memorandum of Understanding (MOU) between Innovation PEI and NRC-IRAP. This MOU enables Innovation PEI to provide bridge funding to IRAP-approved PEI projects, allowing those projects to move forward and meet their ongoing expenses, until further funding from IRAP is available. Seven projects received funding during the 2009-2010 fiscal year.

The *Regulatory, Marketing and Management Fund* is the final Island Prosperity Strategy program to be opened for applications, with the first round application deadline scheduled in the second quarter of the 2010-2011 fiscal year.

Prospecting & Innovation

Prospecting

Successful prospecting activities in the 2009-2010 fiscal year included attraction of Virtual-Agent Services, which will create up to fifty new jobs at a new contact centre in Central Bedeque. The company recruited employees from Kensington to Borden for the new Bedeque centre. Virtual-Agent Services (VAS) is an in-bound contact centre providing services for the telecommunications, tourism and accommodation sectors. The company was established in 1999 and is headquartered in Schaumburg, Illinois. VAS has nineteen operating facilities throughout New Brunswick and an international services centre in Ontario. The Central Bedeque location has been so successful that negotiations are underway for a second rural contact centre location in Prince Edward Island, with an announcement expected in the first quarter of the 2010-2011 fiscal year.

Nature's Crops International (NCI) is a premiere supplier of conventional as well as organic, non-GM, and expeller pressed oils for use in foods, cosmetics and pharmaceuticals. NCI is directly involved in farming operations, supporting dedicated growers from sowing through harvest, ensuring safe, sustainable, traceable and cost-competitive products to its customers. Nature's Crops International selected Prince Edward Island as the site for its new oil extraction facility, or bio-refinery, based on its proximity to world-class research into natural plant-based bioactives, climate, access to good growers and quality product, and labour force skill and availability. NCI will contribute to the creation of a more sustainable agriculture sector with the introduction of new crops and new markets, while also offering long-term jobs for Islanders and introducing new-to-Canada processing technology.



Strategic Initiatives & Properties

The Strategic Initiatives and Properties Division is responsible for all real estate held by Innovation PEI and its subsidiary companies. The portfolio includes properties and business parks as well as the agency's corporate offices located at 94 Euston Street in Charlottetown. The division also owns and manages the Atlantic Technology Centre.

PEI Business Parks

Innovation PEI has established a network of business parks that offer new and expanding businesses a comprehensive range of site locations and distinct competitive advantages. This portfolio includes rental properties and vacant land at business parks across Prince Edward Island.

- Gateway Village
- Pooles Corner Business Park
- Souris Food Park
- Summerside Business Park
- West Prince Business Park
- West Royalty Business Park

Land is also available for development purposes at the Confederation Bridge Fabrication Yard in Borden-Carleton.

PEI BioCommons Research Park

Construction of the infrastructure (road, sewer and water) is underway for the establishment of the Prince Edward Island BioCommons Research Park. This is a key element in the Government of Prince Edward Island's innovation and economic development strategy, Island Prosperity Strategy: A Focus For Change.

Building on the success of Prince Edward Island's bioscience sector, the BioCommons will become a platform for companies and research institutions to accelerate economic prosperity by investing in research and development.

Our Province is gaining an enviable reputation as a national centre of excellence in natural products development for both animal and human health applications. In order to facilitate the continued growth of the sector, the establishment of the BioCommons Park will be a critical piece of infrastructure that will allow for the next logical stage of expansion. The Strategic Initiatives and Properties Division will continue to work with industry and other government departments in this initiative.

Environmental Industrial Services Inc. (EISI)

EISI is responsible for operating and maintaining water supply and waste water treatment facilities for government owned utilities.

At the end of the 2010 fiscal year, EISI has been transferred to Island Waste Management Corporation under the Department of Transportation and Infrastructure Renewal.

Atlantic Technology Centre

The Atlantic Technology Centre is a multi-use, multi-tenant facility that is focused on creating a professional services environment for private and public sector tenants.

By acting as a foundation for economic development and job creation, ATC offers corporate office space, communications and technology infrastructure in addition to meeting rooms and training facilities.

The ATC entered its seventh year of operation in September, 2009.

Services and Amenities

ATC is equipped with the technology necessary for full connectivity within a prosperous business environment.

Clients have access to meeting rooms of various sizes and technical fit-up: a 24 seat computer Training Lab, Conference Suite, a 50 seat interactive Theatre set-up as a multi-media/interactive/presentation theatre.

Tenants have access to first class infrastructure and facilities for a wide variety of events such as press conferences, seminars and even large scale information sessions.

Special Purpose meeting facilities offer clients an alternative to typical meeting location.

The training lab and meeting rooms at ATC are regularly used by a wide variety of private and public sector organizations. These facilities provide a professional and convenient setting for conferences, information sessions and training seminars.

Video conferencing is available for one-on-one job interviews or large group information sessions.

The ATC Data Centre, the only co-location facility of its kind in the province is located in the lower level. It offers 2500 square feet of secure climate controlled space. The Data Centre houses a mix of both on-Island and off-Island clients.

The ATC Community Access Program (CAP) officially opened in September 2004. The CAP Site provides internet access to the general public via six computer terminals on the lower level of the building.



ATLANTIC
TECHNOLOGY
CENTRE

Food Technology Centre

The Food Technology Centre (FTC) provides innovation and technical support for food and bioresource processors. All of the work done at the Centre is for industry clients as project contracts or laboratory analysis service contracts.

The Centre completed 33 project contracts in the 2009-2010 fiscal year. There were 35 signed project contracts in progress at the end of the fiscal year and there were another 50 project contracts proposed or developing at year-end.

These project contracts and service contracts earned revenue to supplement the operating grant provided by the Province of Prince Edward Island and included product and process development, troubleshooting and industry workshops.

The FTC microbiology laboratory provides essential food analysis on value-added food products for international shipment. FTC also provides in-plant environmental testing of surfaces and equipment.

Since November 2006, FTC has been distributing a monthly e-newsletter to more than 2,500 clients and key contacts as well as to selected Government contacts to promote its activities and as a marketing tool. Case studies from the newsletters illustrate the type of work done at the Centre:

Natural Products Extraction Technology

FTC received support from ACOA (AIF), industry and the PEI government in 2004 to fund a five year project to develop commercial technologies to extract bioactives from natural resources from the land and sea. This AIF project was extended until September 30, 2010. This project will receive \$4.9 million over its duration from ACOA. The total project value is

about \$7 million with 70% of funding provided by ACOA.

Numerous individual projects have been contracted with industry under the project umbrella. These include signed projects targeting the separation and purification of quail egg antibodies (Ovopharm, PEI), a project with UPEI to develop a process that will result in a higher quality blueberry juice (higher concentration and more stable antioxidants), and a project to develop a production method for a specialized yeast product (First Venture Technologies Inc.), scale-up of extraction of marine bioactives (Nautilus Bio-science, PEI), pilot biorefinery conversion of biomass to highly purified value-added feedstocks (BioVision Technology Inc., NS, and Coles Associates, PEI), and more recently, Processing Options for Natural Product Extraction of Oats (CEAPRO Inc.).

Accreditations

FTC is a registered ISO 9001:2008 company (ISO-registered since 1997), has Standards Council of Canada Accreditation for the laboratories, is a Registered Food Processing Plant with the Canadian Food Inspection Agency and is a Certified Organic Processor.

FTC has a Health Canada Establishment License which allows analytical testing of pharmaceuticals.

Food & Technology Centre

PEI Product Development Fund

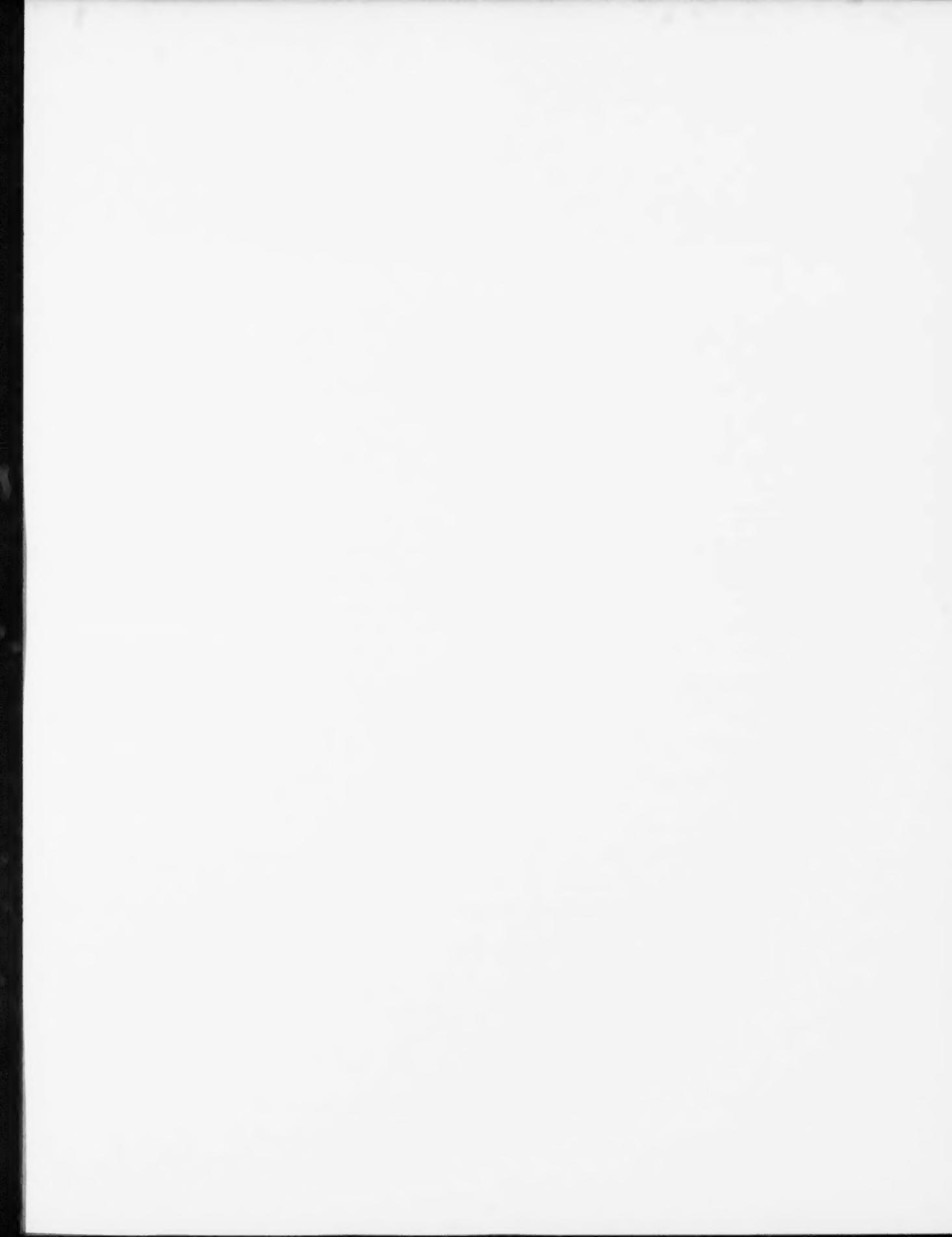
The PEI Product Development Fund assists Prince Edward Island companies access professional, technical assistance through the services of the Food Technology Centre. This funding is applied to the development (including technology transfer) and testing of new and improved products and processes, and other technical development related activities. The Fund contributes 50% of project costs to a maximum of \$50,000.

The Fund is available to PEI businesses that meet the eligibility of the Fund on approved activities. Activities which seek to enhance the value-added component of production will be given first priority and emphasis will be on projects that are clearly expected to have a positive impact on Island businesses and their growth by displacing imported products and creating export opportunities.

Funding Agreements

- FTC has a Network Member Agreement with the National Research Council IRAP Program. This enables FTC to promote innovation and the innovation-related services of the Centre.
- FTC has a funding agreement with Canadian Dairy Commission (CDC) which allows food processors who use milk ingredients to access two funding programs. The programs give processors an opportunity for consultation and development work at the Centre.





Innovation PEI

**Consolidated Financial Statements
March 31, 2010**



June 10, 2010

Auditors' Report

To the Minister of Innovation and Advanced Learning

We have audited the consolidated balance sheet of **Innovation PEI** as at March 31, 2010 and the consolidated statements of earnings, retained earnings and contributed surplus and cash flows for the year then ended. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using differential reporting options available to non-publicly accountable enterprises, as described in note 2(b) to the financial statements. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ArsenaultBestCameronEllis

Chartered Accountants

Innovation PEI

Consolidated Balance Sheet

As at March 31, 2010

	2010 \$	2009 \$
Assets		
Current assets		
Cash and short-term investments	4,350,721	5,267,637
Accounts receivable (notes 3 and 17)	8,789,009	3,295,903
Prepaid expenses	56,880	19,247
Current portion of loans receivable	12,360,335	5,348,653
	<hr/>	<hr/>
Due from the Province of Prince Edward Island (note 4)	25,556,945	13,931,440
Loans receivable, less current portion (note 5)	31,421,167	26,058,245
Investment in private companies (note 6)	13,339,213	14,677,487
Property holdings (note 7)	360,002	1,221,528
Property and equipment (notes 8 and 17)	10,493,544	11,408,099
Net investment in leases, less current portion (note 9)	18,314,961	16,567,341
	<hr/>	<hr/>
	785,030	742,030
	<hr/>	<hr/>
	100,270,862	84,606,170
	<hr/>	<hr/>
Liabilities		
Current liabilities		
Bank advances	94,501	186,211
Short-term notes payable (note 10)	20,618,621	6,998,621
Accounts payable and accrued liabilities (notes 14 and 17)	30,074,852	26,748,076
Provision for payment of guarantees (note 14)	-	14,784,661
Deferred revenue	34,175	277,253
Advances from related company	2,500,000	-
Current portion of long-term debt	3,884,031	4,272,621
	<hr/>	<hr/>
Long-term debt, less current portion (note 11)	57,206,180	53,267,443
Deferred credits (notes 12 and 17)	28,578,505	21,058,429
Deferred contributions (note 13)	9,820,713	8,057,625
	<hr/>	<hr/>
	4,034,457	1,624,537
	<hr/>	<hr/>
	99,639,855	84,008,034
	<hr/>	<hr/>
Contingent liabilities (note 14)		
Equity		
Retained earnings	264,968	232,097
Contributed surplus (note 17)	366,039	366,039
	<hr/>	<hr/>
	631,007	598,136
	<hr/>	<hr/>
	100,270,862	84,606,170
	<hr/>	<hr/>

Approved by the Board of Directors

Director

(2)

W. M. Atchley
W. M. Atchley
Director

Director

Innovation PEI

Consolidated Statement of Retained Earnings and Contributed Surplus For the year ended March 31, 2010

	2010 \$	2009 \$
Retained earnings - Beginning of year	232,097	175,775
Excess revenue for the year	32,871	56,322
Retained earnings - End of year	<u>264,968</u>	<u>232,097</u>
 Contributed surplus - Beginning of year	366,039	1,540,037
Transfer due to wind-up of company (note 17)	-	(1,173,998)
Contributed surplus - End of year	<u>366,039</u>	<u>366,039</u>

(3)

Innovation PEI

Consolidated Statement of Earnings For the year ended March 31, 2010

	2010 \$	2009 \$
Revenue (note 17)		
Grant - Province of Prince Edward Island	31,841,300	28,773,200
Investment income	63,964	1,257,991
Interest on loans receivable	1,509,362	2,022,033
Guarantee fees	12,740	900
Property operations	4,248,157	3,983,782
Grants from related company	116,911	1,400,000
Project revenues	1,549,896	1,355,089
	<hr/> 39,342,330	<hr/> 38,792,995
Expenditures (note 17)		
Operating	5,493,776	6,056,034
Property operations	4,080,137	3,703,397
Development programs	27,247,758	19,311,688
Allowance for credit losses and guarantee payments (note 4)	(12,458,827)	3,837,997
Investment operations	633,010	1,258,093
Project costs	504,837	649,340
Impairment of property holdings	12,943,282	-
Write-down of property and equipment	-	3,000,000
Amortization - property holdings, property and equipment and deferred costs	1,681,109	1,830,529
Amortization - deferred credits	(815,623)	(910,405)
	<hr/> 39,309,459	<hr/> 38,736,673
Excess revenue for the year	<hr/> 32,871	<hr/> 56,322

(4)

Innovation PEI

Consolidated Statement of Cash Flows For the year ended March 31, 2010

	2010	2009
	\$	\$
Cash provided by (used in)		
Operating activities		
Excess revenue for the year	32,871	56,322
Items not affecting cash		
Amortization - deferred credits	(815,623)	(910,405)
Amortization - property holdings and property and equipment	1,681,109	1,830,529
Increase - net investment in lease	(43,000)	(43,000)
Gain on sale of property holdings	(622,421)	-
Writtenown of property and equipment	-	3,000,000
Impairment of property holdings	12,943,282	-
Decrease (increase) in due from the Province of Prince Edward Island - allowance for possible losses	12,458,827	(3,837,997)
Decrease in due from the Province of Prince Edward Island - write offs	-	1,343,185
	<hr/>	<hr/>
	25,635,045	1,438,634
Net change in non-cash working capital items		
Increase in accounts receivable - net	(5,493,104)	(827,713)
Decrease (increase) in prepaid expenses	(37,633)	7,932
Increase in accounts payable and accrued liabilities	3,326,776	451,617
Decrease in provision for payment of guarantees	(14,784,661)	(2,267,572)
Increase (decrease) in deferred revenue	(243,078)	184,756
	<hr/>	<hr/>
	8,403,345	(1,012,346)
Financing activities		
Decrease (increase) in due from Province of P.E.I. - current operations	(17,821,749)	160,543
Increase (decrease) in deferred credits - net	2,578,711	(893,614)
Increase (decrease) in short-term notes payable	13,620,000	(8,001,379)
Increase (decrease) in long-term debt (net)	7,131,486	(15,103,777)
Increase in deferred contributions	2,409,920	1,373,807
Transfer of contributed surplus	-	(1,173,998)
	<hr/>	<hr/>
	7,918,368	(23,638,418)
Investing activities		
Purchase of property and equipment - net	(2,811,683)	(324,052)
Reductions of and proceeds on disposal of property and equipment	-	241,823
Additions to and purchase of property holdings	(12,848,362)	(1,283,489)
Reductions of and proceeds on disposal of property holdings	825,008	-
Decrease in investment in private companies	861,526	339,278
Decrease (increase) in loans receivable (net)	(5,673,408)	20,559,795
Decrease in net investment in lease (net)	-	564,421
Increase in advances from related company	2,500,000	-
	<hr/>	<hr/>
	(17,146,919)	20,097,776
Decrease in cash and short-term investments	<hr/>	<hr/>
	(825,206)	(4,552,988)
Net cash and short-term investments - Beginning of year	<hr/>	<hr/>
	5,081,426	9,634,414
Net cash and short-term investments - End of year	<hr/>	<hr/>
	4,256,220	5,081,426
Net cash and short-term investments consists of:		
Cash and short-term investments	4,350,721	5,267,637
Bank advances	(94,501)	(186,211)
	<hr/>	<hr/>
	4,256,220	5,081,426
Supplementary disclosure		
Interest and dividends received	1,559,656	2,059,233
Interest paid	1,450,896	2,092,530

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

1 Status of the Corporation

Innovation PEI (formerly Prince Edward Island Business Development Inc.) (the "Corporation") is a Crown corporation established under the Innovation PEI Act on December 9, 2009. According to the transitional provisions of the Act, Innovation PEI became the successor to Prince Edward Island Business Development Inc. ("PEIBDI") and assumed responsibility for the management and administration of the programs of PEIBDI, all contracts and agreements entered into by PEIBDI, the real and personal property of PEIBDI, and the assets and liabilities of PEIBDI. Section 22(2)(d) of the Act indicates that the transactions of PEIBDI from April 1, 2008 until the date this Act comes into force, shall be included in the operations of the Corporation. The transition from PEIBDI to the Corporation commenced effective April 1, 2009.

2 Summary of significant accounting policies

a) General

These consolidated financial statements include the accounts of the wholly-owned subsidiaries, F.T.C. Enterprises Limited, Environmental Industrial Services Inc., Atlantic Technology Centre Inc., PEI Biocommons Inc. and 100417 P.E.I. Inc. all having March 31, 2010 year ends.

b) Differential reporting options

The Corporation, with the unanimous consent of its shareholder, the Province of Prince Edward Island, has elected to prepare its financial statements in accordance with Canadian generally accepted accounting principles using the differential reporting options available to non-publicly accountable enterprises described below:

Investment subject to significant influence

The Corporation has elected to use the cost method to account for its investment in Slement Park Corporation. Slement Park Corporation is subject to significant influence and would otherwise be accounted for using the equity method accounting. The investment is included in investment in non-marketable securities as disclosed in note 6.

In addition, the Corporation has applied the following significant accounting policies without reference to differential reporting.

c) Due from the Province of Prince Edward Island

i) Current operations

Operating grant – Province of Prince Edward Island is the balance due from the Province for grants received that are less than the operating grant of \$31,841,300 allocated to Innovation PEI through the appropriation process.

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Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

ii) Allowance for possible credit losses

The annual allowance for possible credit losses (expense or recovery) is recorded as the current year's allowance for possible losses expense in the amount "Due from the Province of Prince Edward Island – Allowance for Possible Credit Losses" in note 4. The "Due from the Province of Prince Edward Island – Allowance for Possible Credit Losses" is reduced when a write-off is recognized by both Prince Edward Island Business Development Inc. and the Province, with notes payable reduced correspondingly. The allowance for possible losses is also reduced by any payment received from the Province on the allowance for possible losses for guarantees.

d) Loans receivable

Working capital and craft loans are recorded at amortized cost less an allowance for possible losses.

Long-term loans are recorded at amortized cost less an allowance for possible losses.

An impaired loan is a loan where in management's opinion there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

e) Allowance for possible losses

An allowance for possible losses is maintained which is considered adequate to absorb all credit and investment related losses and off-balance sheet items including guarantees. The allowance is deducted from the applicable asset on the balance sheet, except for guarantees. The allowance for guarantees is included in accounts payable for Entrepreneurial Loan Program guarantees and as a provision for payment of loan guarantees on the balance sheet for the remaining guarantees allowance.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions total \$6,242,691 (2009 - \$5,614,110). The accumulated allowances for losses on specific off-balance sheet items total \$99,080 (2009 - \$14,888,341). Of this total, \$99,080 (2009 - \$103,680) is included in accounts payable and accrued liabilities, and nil (2009 - \$14,784,661) is recorded as provision for payment of guarantees.

The Corporation does not accrue interest on a loan receivable once a specific provision has been recorded against the loan.

The Corporation reviews its loans portfolio, investments and advances, leased property and property holdings and guarantees on an ongoing basis to assess whether an allowance or write-off is required.

A variety of methods are used to determine the amount expected to be recovered from investments in and advances to private companies and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

A general provision of \$5,378,383 (2009 - \$3,681,128) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar assets, the level of the specific provision, management's judgment, the economic climate and the maturity and financial strength of the investee.

f) Investment in private companies

Investment in private companies, except for three preferred share investments not considered to be concessionary, are recorded at one-half of cost. An expense of 50% is charged to development programs when the funds are invested. The remaining cost is reduced by any applicable allowance for possible losses. Any recovery exceeding the balance in share investment is taken into revenue when received.

The three investments in preferred shares of private companies that are not being carried at one-half of their cost are being carried at the lower of cost and estimated realizable value.

Investment in private companies are reviewed annually for potential declines in value and are written down or an allowance is recorded if a decline in value is considered evident. Write downs are included in development programs expense.

It is not practical within constraints of timeliness and cost to determine the fair value of the investment in private companies as these investments are in closely held private companies that have no organized financial market. The estimated realizable value of these investments and advances is based on expected future cash flows.

g) Property holdings, property and equipment and amortization

i) Property holdings

Property holdings are reported at the lower of cost and estimated realizable value.

Land improvements, buildings and malls, industrial sites buildings and equipment held for resale and the test cell are amortized using the straight-line method at the rates indicated in note 7.

Proceeds on the sale of industrial sites are recorded as a reduction in the carrying value of the asset.

ii) Property and equipment

Buildings, equipment, computer hardware and software, furniture and fixtures, waste treatment facility and land improvements are amortized using the straight-line method at annual rates as indicated in note 8.

A full year's amortization is recorded in the year of acquisition.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

iii) Estimated realizable value

Estimated realizable value for industrial sites is the expected proceeds on resale and for industrial malls it is the property tax assessed value.

Estimated realizable value for land, buildings and equipment held for resale or under lease purchase options is its property tax assessed value.

Estimated realizable value for the test cell is the net cost to construct the asset supported by a payment under a long-term lease agreement.

Any reduction from cost to estimated realizable value is recorded as a provision for possible losses.

h) Net investment in leases

The Corporation's subsidiaries accumulate costs of constructing assets, that are to be classified as capital leases, as assets under capital lease, and the related grants as deferred credits until the lease term begins. When the lease term begins, the assets under capital lease and deferred credits are removed from the balance sheet and a net investment in lease recorded. The net investment in leases represents the net present value of the minimum lease payments receivable over the term of the lease plus the purchase option.

i) Programs assistance payable

Program assistance is expensed and included in accrued liabilities when approved and accepted except for Federal-Provincial cost shared programs and provincially-funded assistance requiring future performance criteria which are expensed when the funds are disbursed.

P.E.I. labour rebate commitments that extend beyond two years are deferred. Commitments under this program are expensed in each year of the commitment but only to the extent that performance criteria is met for that particular period.

j) Post retirement benefits

The Corporation provides retirement benefits to eligible employees. The benefit is based on one week's salary per year of service to a maximum of 26 weeks and is expensed on an accrual basis.

k) Employee pension plan

Most of the Corporation's staff are members of the Province of Prince Edward Island pension plan. Pension obligations are liabilities of the Province and not the Corporation and no liability for these costs has been accrued by the Corporation at March 31, 2010.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

l) Deferred credits

Innovation PEI and its subsidiaries have adopted the policy that contributions received towards the acquisition of property and equipment will be recorded as deferred credits and amortized to earnings on the same basis as the related property and equipment are amortized. Contributions received and not spent on capital assets at year end are recorded as deferred contributions.

m) Revenue recognition

Grants from the Province of Prince Edward Island and investment income are recorded in the period earned.

Interest on loans is recognized as revenue in the period earned except where a loan is classified as impaired. Interest earned on an impaired loan is recognized as revenue only when it has been received.

Long-term rental and common area lost recoveries are recognized on a monthly basis in accordance with lease agreements. Short-term rentals are recognized when the space has been provided to customers.

Revenues from retail sales and utility user fees are recorded when collection is reasonably assured and all other significant conditions of service are met.

Innovation PEI subsidiaries follow the percentage-of-completion method of accounting for revenue and expenditures on project contracts. The percentage-of-completion method records the organization's revenue based on the expenditures incurred and work completed on each contract in progress as at the balance sheet date. Unearned revenue is recorded as deferred revenue.

n) Management estimates

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

o) Financial instruments

The Corporation's financial instruments consist of cash and short-term investments, accounts receivable, loans receivable, due from the Province of Prince Edward Island, investment in private companies, net investment in leases, bank advances, short-term notes payable, accounts payable and accrued liabilities, provision for payment of guarantees, advances from related company and long-term debt. They are classified as follows:

Loans receivable and net investment in leases have been classified as "loans and receivables" and are recorded at amortized cost using the effective interest rate method.

Investment in private companies have been classified as "available for sale". As there are no publicly quoted market values for the investments, the fair value is estimated based on expected future cash flows.

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Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

Short-term notes payable and long-term debt are recorded at amortized cost using the effective interest method.

Due to their short-term nature, all other financial instruments are considered to be carried at amounts which approximate their fair value.

The Corporation does not enter into financial hedging activities and does not engage in derivative transactions.

p) Financial risk management objectives and policies

The Corporation's risk management policies are part of the overall management of the entity's operations. Management's direct involvement in day-to-day operations identifies risks and variations from expectations leading to changes in risk management activities, requirements and actions. As part of the overall management of the entity's operations management considers avoidance of undue concentrations of risk, and employs appropriate investment and credit management policies to manage the Corporation's exposure.

3 Accounts receivable

The accounts receivable have been reduced by an allowance for possible losses of \$285,778 (2009 - \$196,907).

4 Due from the Province of Prince Edward Island

	2010	2009
	\$	\$
Current operations		
Operating grant - Province of Prince Edward Island	7,341,300	1,978,344
Operating grant - recovery of previous year's provision	<u>12,458,793</u>	-
	<u>19,800,093</u>	<u>1,978,344</u>
Allowance for possible credit losses		
Balance - beginning of year	24,079,901	21,585,087
Current year's allowance for possible losses expense (recovery)	<u>(12,458,827)</u>	<u>3,837,997</u>
Current year write-offs	<u>-</u>	<u>(1,343,183)</u>
	<u>11,621,074</u>	<u>24,079,901</u>
Balance - End of year	<u>31,421,167</u>	<u>26,058,245</u>

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

5 Loans receivable

					2010	2009
	Total	Impaired loans included in total	Allowance for possible losses	Allowance for possible losses	Net	Net
	\$	\$	General	Specific	\$	\$
Working capital and craft loans	4,849,064	3,070,931	435,425	2,368,407	2,045,232	2,142,624
Long-term loans						
Shipbuilding/shipping	23,627,719	10,000	2,377,722	10,000	21,239,997	16,817,141
Manufacturing and processing	5,274,550	1,958,973	1,812,618	1,758,972	1,702,960	621,333
Tourism	268,358	-	201,836	-	66,522	67,793
Small business	1,455,305	346,972	463,496	346,972	644,837	347,357
Other	87,286	-	87,286	-	-	29,892
	30,713,218	2,315,945	4,942,958	2,115,944	23,654,316	17,883,516
Total Loans Receivable	35,562,282	5,386,876	5,378,383	4,484,351	25,699,548	20,026,140
Less: loans due within the next fiscal year	17,838,225	3,934,518	2,370,335	3,107,555	12,360,335	5,348,653
	17,724,057	1,452,358	3,008,048	1,376,796	13,339,213	14,677,487

Working capital and craft loans are due on demand and bear interest at rates ranging from 3% to 9.25% and are repayable within the next fiscal year.

Long-term loans are issued at long-term interest rates and are repayable over various terms to a maximum of 20 years with interest rates ranging from 2.25% to 8.5%.

The Corporation has invested 44% (2009 - 67%) of its loan receivable portfolio in the shipbuilding, shipping sector with one Corporation, representing a significant concentration of credit risk in the loans receivable portfolio.

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Innovation PEI

Notes to Consolidated Financial Statements
March 31, 2010

	2010	2009
	\$	\$
<i>Continuity of allowance for possible losses</i>		
Allowance for possible losses - Beginning of year	8,034,474	3,345,807
Add: Provision recorded during the year	1,828,260	3,699,117
Provision transferred from guarantees	-	989,550
Allowance for possible losses - End of year	<u>9,862,734</u>	<u>8,034,474</u>

6 Investment in private companies

	2010	2009
	\$	\$
<i>Investment in private companies</i>		
Small Business and Venture Capital Equity Program investments	445,529	469,480
Less: Allowance for possible losses	<u>(445,529)</u>	<u>(461,764)</u>
	-	7,716
56,000 common shares of Slemon Park Corporation at cost	1	1
Investment in preferred shares of private companies	1,672,812	2,012,811
Less: Allowance for possible losses	<u>(1,312,811)</u>	<u>(799,000)</u>
	360,002	1,213,812
	<u>360,002</u>	<u>1,221,528</u>
	2010	2009
	\$	\$
<i>Continuity of allowance for possible losses</i>		
Allowance for possible losses - Beginning of year	1,260,764	1,187,034
Add: Provision recorded during the year	613,811	73,730
Less: Recovery during the year	<u>(116,235)</u>	-
Allowance for possible losses - End of year	<u>1,758,340</u>	<u>1,260,764</u>

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

7 Property holdings

			2010	2009
	Amortization rate %	Cost \$	Accumulated amortization \$	Net \$
Innovation PEI				
Land		981,500	-	981,500
Land improvements	10 S.L.	44,765	40,289	4,476
Buildings and malls	4 - S.L.	1,666,770	584,549	1,082,221
Land, buildings and equipment held for resale or under lease purchase options				
Industrial sites	7 - S.L.	3,735,204	826,074	2,909,130
Test cell	5 - S.L.	11,111,141	8,707,069	2,404,072
		4,937,000	1,824,855	3,112,145
		22,476,380	11,982,836	10,493,544
				11,408,099

Included in land, buildings and equipment held for resale or under lease purchase options is land of \$1,334,302 (2009 - \$1,329,802).

Included in industrial sites is land of \$369,000 (2009 - \$369,000).

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Innovation PEI

Notes to Consolidated Financial Statements March 31, 2010

8 Property and equipment

			2010	2009
	Amortization rate %	Cost \$	Accumulated amortization \$	Net \$
F.T.C. Enterprises Limited				
Buildings	20 SL	2,954,548	2,649,591	304,957
AIF Building	25 SL	1,497,297	1,497,297	-
Pilot plant and laboratory equipment	10 - 25 SL	3,258,726	2,934,569	324,157
Computer and audio visual equipment	33 1/3 SL	492,812	492,812	-
Furniture and equipment	20 SL	171,779	171,779	-
AIF equipment	100 SL	2,098,606	2,098,606	-
		10,473,768	9,844,654	629,114
				834,935
Environmental Industrial Services Inc.				
Waste water treatment facility	3.33 SL	465,268	30,525	434,743
				435,922
Atlantic Technology Centre Inc.				
Land		1,691,916	-	1,691,916
Land improvements	10 SL	63,596	49,570	14,026
Building	2.5 SL	16,577,072	3,418,885	13,158,187
Furniture and fixtures	20 SL	313,273	313,273	-
Computer hardware	33 1/3 SL	1,501,681	1,501,681	-
Computer software	100 SL	61,600	61,600	-
		20,209,138	5,345,009	14,864,129
				15,296,484
PEI Biocommons Inc.				
Land		2,386,975	-	2,386,975
		33,535,149	15,220,188	18,314,961
				16,567,341

SL = Straight line

9 Net investment in leases

The net investment in leases represents the minimum lease payments receivable over the term of the lease plus purchase options receivable recorded at net present value. The net investment in leases consists of the following:

Innovation PEI

The net investment in lease represents the purchase option receivable from the lessee, due July 1, 2015.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

The net investment in lease is recorded at the net present value of the total lease payments using a discount rate of 5.5%, calculated as follows:

	2010	2009
	\$	\$
Total of lease payments to be received to July 1, 2015	1,000,030	1,000,030
Less: Portion representing interest at 5.5%	<u>(215,000)</u>	<u>(258,000)</u>
Net present value of net investment in lease	<u>785,030</u>	<u>742,030</u>

10 Short-term notes payable

	2010	2009
	\$	\$
Demand note payable to Island Investment Development Inc.	14,998,621	6,998,621
Demand note payable to Province of PEI	5,620,000	-
	<u>20,618,621</u>	<u>6,998,621</u>

During the 2007 year, the Corporation entered into an agreement with Island Investment Development Inc., a provincial Crown corporation, to obtain a \$15,000,000 revolving line of credit. The balance of the line of credit at March 31, 2010 is \$14,998,621 (2009 - \$6,998,621). Interest is charged monthly at a rate equal to the Department of Provincial Treasury of Prince Edward Island's short-term lending rate and the total amount is repayable on demand.

The demand note is secured by a promissory note for \$15,000,000 and a revolving credit agreement.

Interest paid by Innovation PEI and its subsidiaries are included in the expenditure category to which it relates. Included in expenses is interest for 2010 in the amount of \$56,043 (2009 - \$583,198).

Innovation PEI

Notes to Consolidated Financial Statements
March 31, 2010

11 Long-term debt

	2010 \$	2009 \$
4.00% note payable, due January 2012, repayable \$11,249 monthly including principal and interest	556,846	556,846
4.00% note payable, due January 2013, repayable \$12,595 monthly including principal and interest	1,430,499	1,430,499
4.00% note payable, due March 2015 with interest to be paid quarterly and principal due at maturity	857,629	3,943,343
5.33% note payable, repayable in monthly payments including principal and interest of various amounts ranging from \$31,062 to \$190,104, maturing March 2015	9,856,842	10,486,695
6.62% Bank of Nova Scotia mortgage, repayable \$40,333 monthly plus interest, maturing August 2017	8,429,667	8,913,667
6.01% note payable, due December 2024, repayable \$88,025 monthly including principal and interest	10,364,848	-
5.54% note payable, due December 2024, repayable \$7,969 monthly including principal and interest	966,205	-
	<hr/>	<hr/>
	32,462,536	25,331,050
Less: Current portion	<hr/>	<hr/>
	3,884,031	4,272,621
	<hr/>	<hr/>
	28,578,505	21,058,429

The 4.00% notes are payable to Island Investment Development Inc., a provincial Crown corporation.

The 5.33% note payable is issued to the Province of Prince Edward Island.

The 6.62% Bank of Nova Scotia mortgage is secured by a full guarantee provided by the Province of Prince Edward Island.

The 6.01% and 5.54% notes payable are secured by a general security agreement covering all of the assets as the Albany plant location.

All other notes payable are unsecured.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as follows:

	\$
Year ending March 31, 2011	3,884,031
2012	3,120,699
2013	4,335,072
2014	3,255,112
2015	3,059,220

Interest paid by Innovation PEI and its subsidiaries are included in the expenditure category to which it relates. Included in expenses is interest for 2010 in the amount of \$1,461,768 (2009 - \$1,255,147).

12 Deferred credits

		2010	2009
	Cost \$	Accumulated amortization \$	Net \$
F.T.C. Enterprises Limited			
Buildings	2,954,547	2,630,390	324,157
Pilot plant and laboratory equipment	3,493,916	3,188,964	304,952
	6,448,463	5,819,354	629,109
Environmental Industrial Services Inc.			
Waste water treatment facility	455,257	30,017	425,240
	455,257	30,017	425,240
Atlantic Technology Centre Inc.			
Building	6,861,000	1,268,029	5,592,971
Furniture and fixtures	313,273	313,273	-
Computer hardware	1,424,927	1,424,927	-
Computer software	50,800	50,800	-
	8,650,000	3,057,029	5,592,971
	5,592,971	5,592,971	5,764,499
PEI Biocommons Inc.			
Land	2,375,000	-	2,375,000
	2,375,000	-	2,375,000
Innovation PEI			
Industrial sites	8,715,906	7,917,513	798,393
	8,715,906	7,917,513	798,393
	26,644,626	16,823,913	9,820,713
	9,820,713	9,820,713	8,057,625

13 Deferred contributions

Two of the subsidiaries has received funding to offset the cost of acquiring property and equipment. When the funds are expended to acquire the property and equipment, the deferred contributions balance will be reallocated to deferred credits.

(18)

Innovation PEI

Notes to Consolidated Financial Statements
March 31, 2010

14 Contingent liabilities

a) The Corporation is contingently liable under loan guarantees at March 31 as follows:

	2010	2009
	\$	\$
Loan guarantees	<u>2,685,895</u>	<u>1,988,807</u>
Provision for possible payment - loan guarantees	<u>-</u>	<u>79,661</u>
Lease indemnification guarantee - net present value of indemnified payments	<u>-</u>	<u>14,705,000</u>
Provision for possible payment - lease guarantee	<u>-</u>	<u>14,705,000</u>
Total provision for possible payment - loan and lease guarantees	<u>-</u>	<u>14,784,661</u>
	2010	2009
	\$	\$
<i>Continuity of allowance for possible losses</i>		
Allowance for possible losses - Beginning of year	14,784,661	17,052,233
Add: Provision recorded during the year	-	65,158
Less: Provision transferred to loans receivable	-	(989,550)
Current year payment	(14,705,000)	(1,343,180)
Current year recovery	<u>(79,661)</u>	<u>-</u>
Allowance for possible losses - End of year	<u>-</u>	<u>14,784,661</u>

The provision for possible payment for the loan guarantees is included in the overall allowance for possible losses.

The Corporation is also contingently liable under entrepreneur loan program guarantees of \$660,530 (2009 - \$724,532) for which a provision for possible losses of \$99,080 (2009 - \$103,680) has been included in accounts payable and accrued liabilities.

The guarantees are secured by various assets of the company being guaranteed and proceeds from liquidation are expected to cover the net carrying amount of the guarantees.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

Related party amounts

Included in loan guarantees is a guarantee of a term loan in the amount of \$1,718,725 (2009 - \$1,843,728) provided to Slemon Park Corporation, which is controlled by a wholly-owned subsidiary of Innovation PEI.

- b) The Corporation, along with other parties, has been named in a claim by a private company seeking general and aggravated damages and special damages in the amount of \$11,187,345, plus other unspecified damages and costs. It is management's opinion that a liability, if any, is unlikely and undeterminable at this time and no provision has been made in the accounts for future possible losses related to this claim.
- c) The Corporation has been named in a legal action filed by a private company seeking unspecified damages. Management believes this claim is completely without foundation and that the liability resulting from this claim, if any, is unlikely at this time and, accordingly, no provision has been recorded in the accounts for future possible losses.

15 Commitments

- a) F.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2013 with the University of Prince Edward Island for the land upon which the Corporation constructed its facilities. The lease cost is \$1 per year and is renewable for a further term of twenty-five years for the same annual consideration.
- b) Loans approved by Innovation PEI but not disbursed at March 31, 2010 total \$9,897,518 (2009 - \$1,279,029).
- c) The Corporation has committed to disbursing \$23,215,108 for labour rebate program assistance, \$6,701,195 for enriched investment tax credits, \$1,542,000 in industry chair program assistance, \$1,446,269 for specialized labour rebates and \$73,640 for share purchase tax credit over the next four years provided the companies meet their requirements.

16 Operating agreements

Environmental Industrial Services Inc. has agreements with McCain Foods Limited and Irving Pulp & Paper Limited to operate wastewater treatment facilities through December 2010 and 2011, respectively, and stipulate that the companies shall pay Environmental Industrial Services Inc. a user fee equal to the operating costs of the facilities excluding interest and amortization charges. The companies pay these operating costs directly and accordingly a user fee has not been charged by Environmental Industrial Services Inc.

Environmental Industrial Services Inc. is responsible for operating the Brudenell and Crowbush Water and Sewer Utilities on behalf of the Province of Prince Edward Island. Environmental Industrial Services Inc. pays the operating costs of the Utility and recovers these costs from the users of the utility on a pro-rata basis based on usage.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

17 Related party transactions

Balance sheet

Accounts receivable

Included in accounts receivable is \$2,465,318 (2009 - \$294,642) due from the Province of Prince Edward Island and \$285,255 (2009 - \$1,731,565) due from related companies.

Property and equipment

The Province of Prince Edward Island conveys land to the Corporation periodically to be used for development purposes. The exchange and carrying amounts of land when transferred into the Corporation is nil.

Accounts payable

Included in accounts payable and accrued liabilities is \$85,091 (2009 - nil) payable to the Province of Prince Edward Island, and \$109,559 (2009 - nil) due to related companies.

Deferred credits

During the year, PEI Biocommons Inc. received grants of \$2,375,000 (2009 - nil) from Innovation PEI that have been accounted for as deferred credits and included in program expenditures for the year. These amounts have not been eliminated on consolidation.

The cumulative total received by Atlantic Technology Centre Inc. from Innovation PEI to March 31, 2010 in grants to fund capital asset acquisitions was \$4,150,000 (2009 - \$4,150,000). These grants are included in deferred credits. These amounts have not been eliminated on consolidation.

Contributed surplus

F.T.C. Enterprises Limited received a cumulative total of \$366,039 in funds from the Province of Prince Edward Island through Innovation PEI that have been accounted for as contributed surplus. This contribution has not been eliminated on consolidation.

During the prior year, Gateway Village Development Inc. dividdended its net assets in the amount of \$1,283,012 to Innovation PEI prior to the surrender of its charter. The dividend was recorded as investment income by Innovation PEI. The Gateway Village Development Inc. deficit that arose as a result of the dividend to Innovation PEI was offset by a transfer of the \$1,173,998 balance of contributed surplus. This transfer was not eliminated on consolidation.

Innovation PEI

Notes to Consolidated Financial Statements

March 31, 2010

Statement of revenue and expenditures

Management fees

During the year, management fees of \$450,000 (2009 - \$450,000) were received from Island Investment Development Inc. and recorded as a reduction in operating expenditures. Included in grants from related parties is nil (2009 - \$1,400,000) received from Island Investment Development Inc.

Development programs

Included in development programs is nil (2009 - \$31,500) in expenses to other Crown corporations.

Interest expense

Included in expenditures is \$564,420 (2009 - \$622,556) in interest paid to the Province of Prince Edward Island.

Included in expenditures is nil (2009 - nil) in interest paid to a subsidiary of a provincial Crown corporation and \$218,663 (2009 - \$839,315) in interest paid to a provincial Crown corporation.

Other

During the prior year, Environmental Industrial Services Inc. transferred property and equipment to Innovation PEI at a net book value of \$241,821. This transaction was recorded in the normal course of operations and measured on the same terms as transactions with unrelated parties.

The Corporation provides office premises to Tourism PEI for nil consideration.

The Corporation rents land for the annual amount of \$2,120 plus applicable taxes from Slement Park Corporation under a fifty-year lease agreement, effective for the term September 28, 2001 to September 28, 2051.

100417 P.E.I. Inc., a wholly-owned subsidiary of Prince Edward Island Business Development Inc., owns 56% of the common shares of Slement Park Corporation.

18 Subsequent event

Subsequent to the end of the year, Innovation PEI transferred their ownership of Environmental Industrial Services Inc. to Island Waste Management. Transfer of ownership is effective April 1, 2010.

19 Comparative figures

Certain 2009 comparative figures have been restated to conform with the financial statement presentation adopted in the current year.

Innovation PEI

Notes to Consolidated Financial Statements March 31, 2010

20 Interest rate risk

The following table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the Corporation's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

	Under 1 year \$	Over 1 to 5 years \$	Over 5 years \$	Not interest rate sensitive \$	Total \$
Assets					
Cash and short-term investments	2,600,721	1,750,000	-	-	4,350,721
Accounts receivable	-	-	-	8,789,009	8,789,009
Prepaid expenses	-	-	-	56,880	56,880
Loans receivable (net of allowance for losses)	12,360,335	12,379,270	959,943	-	25,699,548
Effective interest rate	3.69%	5.82%	4.09%		
Due from the Province of Prince Edward Island	-	-	-	31,421,167	31,421,167
Investment in non-marketable securities	180,000	180,000	-	2	360,002
Effective interest rate	4%	4%			
Property holdings	-	-	-	10,493,544	10,493,544
Property and equipment	-	-	-	18,314,961	18,314,961
Net investment in leases	-	-	-	785,030	785,030
Total assets	15,141,056	14,309,270	959,943	69,860,593	100,270,862
Liabilities and equity					
Bank advances	-	-	-	94,501	94,501
Short-term notes payable	20,618,621	-	-	-	20,618,621
Accounts payable and accrued liabilities	-	-	-	30,074,852	30,074,852
Deferred revenue	-	-	-	34,175	34,175
Advances from related company				2,500,000	2,500,000
Notes payable and long-term debt	3,884,031	13,770,103	14,808,402	-	32,462,536
Deferred contributions	-	-	-	4,034,457	4,034,457
Deferred credits	-	-	-	9,820,713	9,820,713
Contributed surplus	-	-	-	366,039	366,039
Retained earnings	-	-	-	264,968	264,968
Total liabilities and deficit	24,502,652	13,770,103	14,808,402	47,189,705	100,270,862
Interest rate sensitivity gap	(9,361,596)	539,167	(13,848,459)	22,670,888	-